

VILLAGE OF MENDON, MICHIGAN
ST. JOSEPH COUNTY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|--|-----------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Mendon Village | County St. Joseph |
| Audit Date 3/31/05 | Opinion Date 7/15/05 | Date Accountant Report Submitted to State: 9/30/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

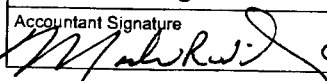
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|--|------------------------|--------------------|
| Certified Public Accountant (Firm Name) Norman & Paulsen, P.C. | | | |
| Street Address 127 W. Chicago Road | | City Sturgis | State MI |
| Accountant Signature  CPA | | ZIP 49091 | |
| | | Date 9/30/05 | |

VILLAGE OF MENDON

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-8 |
| Basic Financial Statements | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 11 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 12 |
| Statement of Revenue, Expenditures, and Changes in Fund Balance | 13 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 14 |
| Proprietary Funds: | |
| Statement of Net Assets | 15 |
| Statement of Revenue, Expenses, and Changes in Net Assets | 16 |
| Statement of Cash Flows | 17-18 |
| Notes to Financial Statements | 19-38 |

VILLAGE OF MENDON

TABLE OF CONTENTS

(Continued)

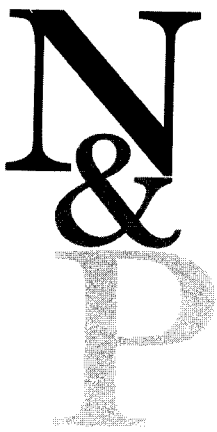
PAGE

Required Supplemental Information

.Budgetary Comparison Schedule:

| | |
|----------------------|----|
| General Fund | 39 |
| Major Street Fund | 40 |
| Local Street Fund | 41 |
| Vehicle Sinking Fund | 42 |

| | |
|--|----|
| Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 43 |
|--|----|



INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Mendon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Mendon, Michigan, as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Mendon management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Mendon, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2005, on our consideration of the Village of Mendon internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 1 to the financial statements, the Village of Mendon adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* and GASB 38, *Certain Financial Statement Notes Disclosures*, as of April 1, 2004.

Norman J. Paulson, P.C.

July 15, 2005

VILLAGE OF MENDON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Mendon financial performance provides an overview of the Village's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Village's financial statements.

Financial Highlights

The Village's overall financial position decreased by \$109,370 during the fiscal year ended March 31, 2005, which represents 2 percent of the net asset position at the beginning of the year. Included in the Village's total net assets of \$5,506,649 are the Sewer Disposal System Fund net assets of \$3,956,097 and the Water Supply System Fund net assets of \$194,242. The Sewage Disposal System's net assets decreased by \$85,120 and the Water Supply System's net assets decreased by \$3,220.

The Village's Governmental Funds reflected a total fund balance at March 31, 2005 of \$589,402, which was a decrease of \$23,516 from the prior year end. Included in this decrease was the General Fund which reflected an increase of \$13,290; the Vehicle Sinking Fund which reflected an increase of \$5,041 and the Major Street and Local Street Funds which reflected a combined decrease of \$41,847.

The total Governmental Fund expenditures for the year ended March 31, 2005, amounted to \$467,942, of which \$227,351 (50 percent) was for public works; \$116,609 (25 percent) was for public safety; and \$119,310 (25 percent) was for general government.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

VILLAGE OF MENDON

MANAGEMENT' S DISCUSSION AND ANALYSIS

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)

| | Governmental Funds | | Enterprise Funds | |
|---|-----------------------|---------------|---------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| Assets | \$ 621 | \$ 753 | \$ 6,348 | \$ 6,542 |
| Liabilities | 32 | 140 | 2,198 | 2,303 |
| Fund Equity | | | | |
| Invested in capital assets, net of related debt | - | - | 2,178 | 2,232 |
| Retained Earnings | | | | |
| Restricted | - | - | 276 | 240 |
| Unreserved | - | - | 1,696 | 1,767 |
| Fund Balances | | | | |
| Reserved | 56 | 57 | - | - |
| Unreserved | 533 | 556 | - | - |
| Total Fund Equity | <u>\$ 589</u> | <u>\$ 613</u> | <u>\$ 4,150</u> | <u>\$ 4,239</u> |

VILLAGE OF MENDON

MANAGEMENT' S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the net assets of the current date as required by GASB 34 stated under the full accrual basis. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

(dollars presented in thousands)

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--|------------------------------------|-------------------------------------|
| Current and other assets | \$ 598 | \$ 1,974 |
| Capital assets | <u>767</u> | <u>4,374</u> |
| Total assets | 1,365 | 6,348 |
| Long-term debt outstanding | - | 2,196 |
| Other liabilities | <u>9</u> | <u>2</u> |
| Total liabilities | 9 | 2,198 |
| Net assets | | |
| Invested in capital assets, net of related debt | 767 | 2,178 |
| Restricted | - | 276 |
| Unrestricted | <u>589</u> | <u>1,696</u> |
| Total net assets | <u>\$ 1,356</u> | <u>\$ 4,150</u> |

VILLAGE OF MENDON

MANAGEMENT' S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

| | Governmental Funds | | Enterprise Funds | |
|-----------------------|-----------------------|--------|---------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| Revenue | | | | |
| Taxes | \$ 159 | \$ 146 | \$ - | \$ - |
| Licenses and permits | 6 | 5 | - | - |
| Federal grants | 11 | 10 | - | - |
| State shared revenue | 161 | 163 | - | - |
| Charges for services | 5 | 6 | 239 | 232 |
| Fines and forfeitures | 2 | 1 | - | - |
| Rents | 68 | 71 | - | - |
| Interest | 6 | 3 | 78 | 84 |
| Other | 26 | 6 | - | - |
| Total revenue | 444 | 411 | 317 | 316 |
| Program expenses | | | | |
| General government | 119 | 107 | - | - |
| Public safety | 107 | 75 | - | - |
| Public works | 227 | 137 | - | - |
| Recreation | 5 | 4 | - | - |
| Capital outlay | 10 | - | - | - |
| Sewer system | - | - | 43 | 55 |
| Water system | - | - | 102 | 104 |
| Depreciation | - | - | 150 | 150 |
| Interest expense | - | - | 110 | 114 |
| Total expenses | 468 | 323 | 405 | 423 |
| Excess (deficiency) | \$ (24) | \$ 88 | \$ (88) | \$ (107) |

VILLAGE OF MENDON

MANAGEMENT' S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets as of the current date as required by GASB 34 stated under the full accrual basis of accounting. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

(dollars presented in thousands)

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|------------------------------------|------------------------------------|-------------------------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 30 | \$ 239 |
| Operating grants and contributions | 95 | - |
| Capital grants and contributions | - | - |
| General revenues | | |
| Property taxes | 159 | - |
| State shared revenues | 81 | - |
| Unrestricted investment earnings | 6 | 78 |
| Miscellaneous | 58 | - |
| Total revenues | 429 | 317 |
| Expenses | | |
| General government | 129 | - |
| Public safety | 111 | - |
| Public works | 201 | - |
| Recreation | 9 | - |
| Sewer system | - | 275 |
| Water system | - | 130 |
| Total expenses | 450 | 405 |
| Change in net assets | \$ (21) | \$ (88) |

The Village' s Funds

Our analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. Major funds for the fiscal year ended March 31, 2005 include the General Fund and the Major Street and Local Street Funds.

The General fund pays for most of the Village's governmental services. The primary services include police protection services and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes and state shared revenues.

VILLAGE OF MENDON

MANAGEMENT' S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the Village budgeted an increase of \$23,037 in the original budget and a decrease of \$26,298 in the amended budget. Actual operating results ended up as an increase of \$13,290.

The original budget was amended to reflect an increase in transfers to the Local Street Fund to cover additional street maintenance projects.

The actual results ended the fiscal year within \$39,588 of the amended budget.

Capital Assets and Debt Administration

During the year ended March 31, 2005, the total capital assets of the Village increased by \$37,348 of which \$27,348 was street construction and \$10,000 was for a police vehicle.

During the year ended March 31, 2005, the total debt obligations of the Village decreased by the scheduled principal payment of \$96,000. Total debt obligations at March 31, 2005 amounted to \$2,196,000.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MENDON

**STATEMENT OF NET ASSETS
MARCH 31, 2005**

| | <u>Primary Government</u> | | | |
|---|------------------------------------|---|---------------------|----------------------------|
| | <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> | <u>Component Units</u> |
| ASSETS | | | | |
| Cash and investments | \$ 544,567 | \$ 826,819 | \$ 1,371,386 | \$ 469,837 |
| Receivables, net | 51,898 | 126,999 | 178,897 | 187,435 |
| Receivables, long- term portion | - | 1,011,164 | 1,011,164 | 78,830 |
| Internal balances | (8,216) | 8,216 | - | - |
| Prepaid and other assets | 9,994 | 842 | 10,836 | - |
| Capital assets - net | <u>766,908</u> | <u>4,374,208</u> | <u>5,141,116</u> | <u>51,188</u> |
| Total assets | 1,365,151 | 6,348,248 | 7,713,399 | 787,290 |
| LIABILITIES | | | | |
| Accounts payable | 4,394 | 1,072 | 5,466 | 25,133 |
| Accrued and other liabilities | 4,447 | 837 | 5,284 | - |
| Debt obligations: | | | | |
| Due within one year | - | 96,000 | 96,000 | 78,556 |
| Due in more than one year | <u>-</u> | <u>2,100,000</u> | <u>2,100,000</u> | <u>-</u> |
| Total liabilities | <u>8,841</u> | <u>2,197,909</u> | <u>2,206,750</u> | <u>103,689</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 766,908 | 2,178,208 | 2,945,116 | 51,188 |
| Restricted: | | | | |
| Debt service | - | 229,789 | 229,789 | - |
| Other purposes | - | 45,874 | 45,874 | - |
| Unrestricted | <u>589,402</u> | <u>1,696,468</u> | <u>2,285,870</u> | <u>632,413</u> |
| Total net assets | <u>\$ 1,356,310</u> | <u>\$ 4,150,339</u> | <u>\$ 5,506,649</u> | <u>\$ 683,601</u> |

See accompanying notes to the financial statements

VILLAGE OF MENDON

STATEMENT OF ACTIVITIES
MARCH 31, 2005

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--------------------------------|-------------------|-------------------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary government | | | | |
| Governmental activities: | | | | |
| General government | \$ 128,522 | \$ 6,211 | \$ - | \$ - |
| Public safety | 110,947 | 11,779 | 12,041 | - |
| Public works | 200,914 | 12,141 | 82,745 | - |
| Recreation | <u>9,492</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | 449,875 | 30,131 | 94,786 | - |
| Business-type activities: | | | | |
| Sanitary sewer | 274,694 | 112,180 | - | - |
| Water | <u>130,181</u> | <u>126,825</u> | <u>-</u> | <u>-</u> |
| Total business-type activities | <u>404,875</u> | <u>239,005</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>\$ 854,750</u> | <u>\$ 269,136</u> | <u>\$ 94,786</u> | <u>\$ -</u> |
| Component units | | | | |
| Downtown Development Authority | <u>\$ 401,240</u> | <u>\$ -</u> | <u>\$ 210,000</u> | <u>\$ -</u> |

General revenues:
 Property taxes
 State shared revenues
 Unrestricted investment earnings
 Miscellaneous

Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to the financial statements

Primary Government

- 10 -

FUND FINANCIAL STATEMENTS

VILLAGE OF MENDON

GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2005

| | | General Fund |
|-----------------------------------|--|-------------------|
| ASSETS | | |
| Cash and cash equivalents | | \$ 263,434 |
| Accounts receivable | | 13,499 |
| Due from other governmental units | | 24,211 |
| Due from other funds | | 11,578 |
| Prepaid expenditures | | <u>9,152</u> |
| Total assets | | <u>\$ 321,874</u> |

LIABILITIES AND FUND BALANCE

| | | |
|---------------------------------------|--|-------------------|
| LIABILITIES | | |
| Accounts payable | | \$ 2,686 |
| Accrued liabilities | | 4,447 |
| Due to other funds | | <u>11,657</u> |
| Total liabilities | | 18,790 |
| FUND BALANCE | | |
| Reserved for road maintenance | | 55,832 |
| Unreserved, undesignated | | <u>247,252</u> |
| Total fund balance | | <u>303,084</u> |
| Total liabilities and fund balance | | <u>\$ 321,874</u> |

See accompanying notes to financial statements

| <u>Major Street Fund</u> | <u>Local Street Fund</u> | <u>Vehicle Sinking Fund</u> | <u>Total Governmental Funds</u> |
|----------------------------------|----------------------------------|-------------------------------------|---|
| \$ 212,389 | \$ 58,634 | \$ 10,110 | \$ 544,567 |
| - | - | - | 13,499 |
| 10,416 | 3,772 | - | 38,399 |
| 2,409 | 1,032 | - | 15,019 |
| <u>421</u> | <u>421</u> | <u>-</u> | <u>9,994</u> |
| <u>\$ 225,635</u> | <u>\$ 63,859</u> | <u>\$ 10,110</u> | <u>\$ 621,478</u> |

| | | | |
|--------------|--------------|----------|---------------|
| \$ 1,519 | \$ 189 | \$ - | \$ 4,394 |
| - | - | - | 4,447 |
| <u>1,696</u> | <u>9,882</u> | <u>-</u> | <u>23,235</u> |
| 3,215 | 10,071 | - | 32,076 |

| | | | |
|-------------------|------------------|------------------|-------------------|
| - | - | - | 55,832 |
| <u>222,420</u> | <u>53,788</u> | <u>10,110</u> | <u>533,570</u> |
| <u>222,420</u> | <u>53,788</u> | <u>10,110</u> | <u>589,402</u> |
| <u>\$ 225,635</u> | <u>\$ 63,859</u> | <u>\$ 10,110</u> | <u>\$ 621,478</u> |

VILLAGE OF MENDON

GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2005

Total governmental fund balances \$ 589,402

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds.

| | | |
|-------------------------------|------------------|----------------|
| Governmental capital assets | \$ 1,156,380 | |
| Less accumulated depreciation | <u>(389,472)</u> | <u>766,908</u> |

Net assets of governmental activities \$ 1,356,310

See accompanying notes to financial statements

VILLAGE OF MENDON

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2005

| | <u>General Fund</u> |
|---|-------------------------|
| REVENUE | |
| Taxes | \$ 158,702 |
| Licenses and permits | 5,828 |
| State grants | 81,554 |
| Federal grants | 11,093 |
| Charges for services | 5,096 |
| Fines and forfeitures | 2,419 |
| Rents | 67,533 |
| Interest | 3,476 |
| Other | <u>22,987</u> |
| Total revenue | 358,688 |
| EXPENDITURES | |
| Legislative | 13,899 |
| General government | 105,411 |
| Public safety | 106,609 |
| Public works | 79,962 |
| Recreation | 4,672 |
| Capital outlay | <u>-</u> |
| Total expenditures | <u>310,553</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | 48,135 |
| OTHER FINANCING SOURCES (USES) | |
| Transfers from other funds | - |
| Transfers to other funds | <u>(34,845)</u> |
| Total other financing sources (uses) | <u>(34,845)</u> |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | 13,290 |
| FUND BALANCE - BEGINNING OF YEAR | <u>289,794</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 303,084</u> |

See accompanying notes to financial statements

| Major Street Fund | Local Street Fund | Vehicle Sinking Fund | Total Governmental Funds |
|-------------------------|-------------------------|----------------------------|--------------------------------|
| \$ - | \$ - | \$ - | \$ 158,702 |
| - | - | - | 5,828 |
| 58,233 | 21,071 | - | 160,858 |
| - | - | - | 11,093 |
| - | - | - | 5,096 |
| - | - | - | 2,419 |
| - | - | - | 67,533 |
| 2,406 | 547 | 41 | 6,470 |
| <u>2,408</u> | <u>1,032</u> | <u>-</u> | <u>26,427</u> |
| 63,047 | 22,650 | 41 | 444,426 |
| - | - | - | 13,899 |
| - | - | - | 105,411 |
| - | - | - | 106,609 |
| 87,908 | 59,481 | - | 227,351 |
| - | - | - | 4,672 |
| <u>-</u> | <u>-</u> | <u>10,000</u> | <u>10,000</u> |
| <u>87,908</u> | <u>59,481</u> | <u>10,000</u> | <u>467,942</u> |
| (24,861) | (36,831) | (9,959) | (23,516) |
| - | 29,845 | 15,000 | 44,845 |
| <u>(10,000)</u> | <u>-</u> | <u>-</u> | <u>(44,845)</u> |
| <u>(10,000)</u> | <u>29,845</u> | <u>15,000</u> | <u>-</u> |
| (34,861) | (6,986) | 5,041 | (23,516) |
| <u>257,281</u> | <u>60,774</u> | <u>5,069</u> | <u>612,918</u> |
| <u>\$ 222,420</u> | <u>\$ 53,788</u> | <u>\$ 10,110</u> | <u>\$ 589,402</u> |

VILLAGE OF MENDON

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

Net change in fund balances - total governmental funds \$ (23,516)

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is depreciated over their estimated useful lives.

| | |
|---------------------------------|-----------------|
| Expenditures for capital assets | 37,348 |
| Depreciation expense | <u>(34,862)</u> |

| | |
|---|--------------------|
| Change in net assets of governmental activities | <u>\$ (21,030)</u> |
|---|--------------------|

See accompanying notes to financial statements

VILLAGE OF MENDON

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2005

| | Sewage Disposal System Fund | Water Supply System Fund | Total |
|--|--------------------------------------|-----------------------------------|---------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 812,575 | \$ 14,244 | \$ 826,819 |
| Special assessments | 102,045 | - | 102,045 |
| Accounts receivable | 13,752 | 11,202 | 24,954 |
| Due from other funds | 2,784 | 5,432 | 8,216 |
| Prepaid and other assets | <u>421</u> | <u>421</u> | <u>842</u> |
| Total current assets | 931,577 | 31,299 | 962,876 |
| NONCURRENT ASSETS | | | |
| Special assessments | 1,011,164 | - | 1,011,164 |
| Capital assets, net of depreciation | <u>4,148,432</u> | <u>225,776</u> | <u>4,374,208</u> |
| Total noncurrent assets | <u>5,159,596</u> | <u>225,776</u> | <u>5,385,372</u> |
| Total assets | 6,091,173 | 257,075 | 6,348,248 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Current portion of long-term debt | 90,000 | 6,000 | 96,000 |
| Accounts payable | 76 | 996 | 1,072 |
| Accrued liabilities | <u>-</u> | <u>837</u> | <u>837</u> |
| Total current liabilities | 90,076 | 7,833 | 97,909 |
| NONCURRENT LIABILITIES | | | |
| Long-term debt, net of current portion | <u>2,045,000</u> | <u>55,000</u> | <u>2,100,000</u> |
| Total liabilities | <u>2,135,076</u> | <u>62,833</u> | <u>2,197,909</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 2,013,432 | 164,776 | 2,178,208 |
| Restricted for debt service | 216,352 | 13,437 | 229,789 |
| Restricted for maintenance | 45,874 | - | 45,874 |
| Unrestricted | <u>1,680,439</u> | <u>16,029</u> | <u>1,696,468</u> |
| Total net assets | <u>\$3,956,097</u> | <u>\$ 194,242</u> | <u>\$ 4,150,339</u> |

See accompanying notes to financial statements

VILLAGE OF MENDON

PROPRIETARY FUNDS STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED MARCH 31, 2005

| | Sewer Fund | Water Fund | Totals |
|---------------------------------------|--------------------|-------------------|--------------------|
| OPERATING REVENUE | | | |
| Charges for services | \$ 73,939 | \$ 116,027 | \$ 189,966 |
| Debt retirement | 34,449 | - | 34,449 |
| Rental | 500 | 2,596 | 3,096 |
| Other | <u>3,292</u> | <u>8,202</u> | <u>11,494</u> |
| Total operating revenue | 112,180 | 126,825 | 239,005 |
| OPERATING EXPENSES | | | |
| Salaries | 8,679 | 19,540 | 28,219 |
| Fringe benefits | 6,345 | 7,422 | 13,767 |
| Operating supplies | 2,022 | 3,687 | 5,709 |
| Administration | 6,710 | 8,432 | 15,142 |
| Professional services | 853 | 1,598 | 2,451 |
| Repairs and maintenance | 3,412 | 6,100 | 9,512 |
| Insurance | 4,015 | 4,014 | 8,029 |
| Utilities | 3,737 | 12,030 | 15,767 |
| Equipment rental | 6,445 | 37,406 | 43,851 |
| Miscellaneous | 1,201 | 1,602 | 2,803 |
| Depreciation | <u>125,000</u> | <u>25,000</u> | <u>150,000</u> |
| Total operating expenses | <u>168,419</u> | <u>126,831</u> | <u>295,250</u> |
| OPERATING INCOME (LOSS) | (56,239) | (6) | (56,245) |
| NONOPERATING REVENUE (EXPENSE) | | | |
| Interest income | 77,394 | 136 | 77,530 |
| Interest expense | <u>(106,275)</u> | <u>(3,350)</u> | <u>(109,625)</u> |
| Net nonoperating revenue (expense) | <u>(28,881)</u> | <u>(3,214)</u> | <u>(32,095)</u> |
| CHANGE IN NET ASSETS | (85,120) | (3,220) | (88,340) |
| NET ASSETS - BEGINNING OF YEAR | <u>4,041,217</u> | <u>197,462</u> | <u>4,238,679</u> |
| NET ASSETS - END OF YEAR | <u>\$3,956,097</u> | <u>\$ 194,242</u> | <u>\$4,150,339</u> |

See accompanying notes to financial statements

VILLAGE OF MENDON

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2005

| | Sewage Disposal System Fund | Water Supply System Fund | Total |
|--|--------------------------------------|-----------------------------------|-------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | \$ 110,651 | \$ 125,982 | \$ 236,633 |
| Payments to suppliers | (17,758) | (36,138) | (53,896) |
| Payments to employees | (15,389) | (27,972) | (43,361) |
| Benefit payments | (6,766) | (7,843) | (14,609) |
| Payments for interfund services used | <u>(6,445)</u> | <u>(42,622)</u> | <u>(49,067)</u> |
| Net cash provided (used) by operating activities | 64,293 | 11,407 | 75,700 |
| Cash flows from capital and related financing activities | | | |
| Receipts from special assessments | 92,824 | - | 92,824 |
| Principal paid on debt | (90,000) | (6,000) | (96,000) |
| Interest paid on debt | (106,275) | (3,350) | (109,625) |
| Acquisition of capital assets | <u>-</u> | <u>-</u> | <u>-</u> |
| Net cash provided (used) by capital and related financing activities | (103,451) | (9,350) | (112,801) |
| Cash flows from investing activities | | | |
| Interest received | <u>77,394</u> | <u>136</u> | <u>77,530</u> |
| Net increase (decrease) in cash | 38,236 | 2,193 | 40,429 |
| Cash and Cash Equivalents - Beginning of Year | <u>774,339</u> | <u>12,051</u> | <u>786,390</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 812,575</u> | <u>\$ 14,244</u> | <u>\$ 826,819</u> |

See accompanying notes to financial statements

VILLAGE OF MENDON

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED MARCH 31, 2005

| | Sewage Disposal System Fund | Water Supply System Fund | Total |
|---|--------------------------------------|-----------------------------------|------------------|
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities | | | |
| Operating income (loss) | \$ (56,239) | \$ (6) | \$ (56,245) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities | | | |
| Depreciation | 125,000 | 25,000 | 150,000 |
| (Increase) decrease in: | | | |
| Accounts receivable | (1,529) | (843) | (2,372) |
| Prepaid expenses | (421) | (421) | (842) |
| Due from other funds | - | (5,216) | (5,216) |
| Increase (decrease) in: | | | |
| Accounts payable | (2,518) | (7,107) | (9,625) |
| Net cash provided by (used for) operating activities | <u>\$ 64,293</u> | <u>\$ 11,407</u> | <u>\$ 75,700</u> |

See accompanying notes to financial statements

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Mendon conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to villages. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the Village the option of electing to apply FASB pronouncements issued after November 30, 1989. The Village has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the Village are discussed below.

The Village adopted GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* as of April 1, 2004. Certain of the significant changes in GASB 34 include the following:

- * A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operation has been included with the financial statements.
- * Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided.
- * Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$1,129,032 previously reported in the General Fixed Asset Account Group. In addition, the governmental activities column includes debt obligations totaling \$-0- previously reported in the General Long-Term Debt Account Group.
- * A change in the fund financial statements to focus on major funds.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Village also adopted GASB 38, *Certain Financial Statement Note Disclosures*, as of April 1, 2004. GASB 38 modifies note disclosures required by GAAP. The adoption of this change in accounting principles had no effect on the financial condition or result of operations of any of the Village's funds as of and for the year ended March 31, 2005, but did change some of the disclosures required for the notes to the financial statements.

Reporting Entity

The Village of Mendon operates a Council-President form of government and provides the following services as authorized by its charter: public safety (police, fire and inspections), highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the Village (the primary government) and its component units, entities for which the Village is considered to be financially accountable.

Discretely Presented Component Units - The component units' columns in the government-wide financial statements include the financial data of the Village's other component units. These units are reported in a separate column to emphasize that they are legally separate from the Village.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. Members of the DDA are appointed by the Village Council and the Authority is fiscally dependent on the Village since the Village Council approves the DDA budget and must approve any debt issuance.

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Village as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Village and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Village.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- * Any fund the Village elects to include as a major fund.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Village reports the following major funds:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of major streets within the Village.

Local Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of local streets within the Village.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Vehicle Sinking Fund - To account for funds set aside for vehicle replacement costs.

Enterprise Funds

Sewage Disposal System Fund - To account for user charges and for operating expenses and debt service of the Village's sewer system.

Water Supply System Fund - To account for user charges and for operating expenses and debt service of the Village's water system.

The following is a description of two major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Village considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the Village:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise funds are charges to customers for sales and services. The water and sewer funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following is a description of the proprietary fund types of the Village:

Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about February 1, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about April 1, the budget is legally enacted through passage of resolution.
- * The Village Manager is authorized to transfer budgeted amounts within departments.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * The budget for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund and special revenue funds lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Village Council.

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government of federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | <u>Depreciable Life-Years</u> |
|----------------------------|-----------------------------------|
| Land improvements | 15-40 |
| Streets | 15-20 |
| Utility systems | 30-50 |
| Buildings and improvements | 15-50 |
| Machinery and equipment | 5-20 |
| Vehicles | 2-7 |
| Furniture and other | 3-7 |

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Property Taxes - The Village's property taxes are levied as an enforceable lien on property as of December 1. Village taxes are levied on the following July 1 and are payable without penalty through September 16. Real property taxes not collected as of March 1 are turned over to St. Joseph County for collection. The County advances the Village 100% for delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Village's treasurer. The Village's property taxes levied on July 1 provide the revenue for the current fiscal year.

The assessed and state equalized taxable value of real and personal property located in the Village totaled \$22,536,800. The Village's general operating levy for the year was based on a millage rate of 9.1643.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - It is the Village's policy to not pay for unused vacation or sick days and not to allow accumulation of unpaid days. Therefore, no current or long-term liability has been accrued.

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 2 - CASH AND INVESTMENTS

The Village uses financial institutions for investments purposes, which are in accordance with statutory authority.

The accounts maintained in the financial institutions are checking, savings, certificates of deposit and investment pool funds.

At March 31, 2005, the carrying amount of the Village's deposits was \$1,371,386 and the bank balance was \$1,432,015. The differences between the balances are the result of checks issued by the Village but not yet presented for payment. The risk exposure of all cash and cash equivalents, at March 31, 2004, is as follows:

| | |
|---------------------------------|-------------------|
| Insured | \$ 366,841 |
| Uninsured | <u>179,530</u> |
| Total cash and cash equivalents | <u>\$ 546,371</u> |

The total cash presented on the balance sheet at March 31, 2005, includes \$100 of imprest cash.

The Village's remaining investments at March 31, 2005, consists of an investment pool, the Government Cash Reserves Fund in the amount of \$885,644, which by definition, are not categorized by risk. The carrying values and market values are the same for these investments.

The carrying amount of deposits for Downtown Development Authority, a discretely presented component unit, was \$469,837 and the bank balance was \$469,837. Of the bank balance \$18,162 is covered by federal depository insurance, and \$-0- is uninsured and uncollateralized.

The remaining investments at March 31, 2005, consists of an investment pool, the Government Cash Reserves Fund in the amount of \$451,675, which by definition, are not categorized by risk. The carrying values and market values are the same for these investments.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 74 percent due from other governmental units and 26 percent accounts receivable. Business-type activities receivables are 98 percent special assessments and 2 percent due from customers.

Accounts receivable in the governmental activities and the business-type activities are reported net of an allowance for uncollectible accounts of -0-.

Receivables in the component unit include \$103,809 due from Mendon Township for captured taxes and \$83,626 due from the State of Michigan for Federal CDBG.

Accounts receivable in the component unit are reported net of an allowance for uncollectible accounts of -0-.

Receivables, long-term portion in the component unit is a land contract receivable collectible in monthly installments of \$652 including interest at 5.5% final installment due December, 2014.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at March 31, 2005:

| <u>Fund/</u> <u>Component Unit</u> | <u>Receivable</u> | <u>Fund/</u> <u>Component Unit</u> | <u>Payable</u> |
|---------------------------------------|-------------------|---------------------------------------|------------------|
| <u>Due from/to other funds</u> | | | |
| General | \$ 11,578 | Major streets | \$ 1,696 |
| | | Local streets | 9,882 |
| | <u>11,578</u> | | <u>11,578</u> |
| Major streets | 2,409 | General | 11,657 |
| Local streets | 1,032 | | |
| Sewer | 2,784 | | |
| Water | 5,432 | | |
| | <u>11,657</u> | | <u>11,657</u> |
| Totals | <u>\$ 23,235</u> | | <u>\$ 23,235</u> |

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

The Due From/To Other Fund balances resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers consisted of the following for the year ended March 31, 2005:

| <u>Fund</u> | <u>Transfers Out</u> | <u>Fund</u> | <u>Transfers In</u> |
|--------------|--------------------------|-----------------|-------------------------|
| General | \$ 34,845 | Local street | \$ 19,845 |
| | <u>34,845</u> | Vehicle sinking | <u>15,000</u> |
| | | | <u>34,845</u> |
| Major street | <u>10,000</u> | Local street | <u>10,000</u> |
| Totals | <u>\$ 44,845</u> | | <u>\$ 44,845</u> |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2005, was as follows:

| | Balance April 1, 2004 | Additions | Disposals | Balance March 31, 2005 |
|---|-----------------------------|-----------|-----------|------------------------------|
| <u>Primary Government</u> | | | | |
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 353,375 | \$ - | \$ - | \$ 353,375 |
| Capital assets, being depreciated: | | | | |
| Infrastructure | - | 27,348 | - | 27,348 |
| Land improvements | 192,416 | - | - | 192,416 |
| Buildings and improvements | 369,282 | - | - | 369,282 |
| Machinery and equipment | 28,535 | - | - | 28,535 |
| Vehicles | 164,844 | 10,000 | - | 174,844 |
| Office furniture and equipment | 10,580 | - | - | 10,580 |
| Subtotal | 765,657 | 37,348 | - | 803,005 |
| Accumulated depreciation | | | | |
| Infrastructure | - | 910 | - | 910 |
| Land improvements | 96,210 | 9,620 | - | 105,830 |
| Buildings and improvements | 166,180 | 9,232 | - | 175,412 |
| Machinery and equipment | 22,820 | 2,380 | - | 25,200 |
| Vehicles | 64,110 | 11,660 | - | 75,770 |
| Office furniture and equipment | 5,290 | 1,060 | - | 6,350 |
| Subtotal | 354,610 | 34,862 | - | 389,472 |
| Net capital assets being depreciated | 411,047 | | | 413,533 |
| Net capital assets | \$ 764,422 | | | \$ 766,908 |

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 5 - CAPITAL ASSETS - Continued

| | Balance April 1, 2004 | Additions | Disposals/ Transfers | Balance March 31, 2005 |
|---|-----------------------------|----------------|-------------------------|------------------------------|
| Business-Type activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 190,950 | \$ - | \$ - | \$ 190,950 |
| Capital assets, being depreciated: | | | | |
| Sewage disposal system | 4,988,165 | - | - | 4,988,165 |
| Water supply system | <u>340,132</u> | <u>-</u> | <u>-</u> | <u>340,132</u> |
| Subtotal | 5,328,297 | - | - | 5,328,297 |
| Accumulated depreciation | | | | |
| Sewage disposal system | 808,233 | 125,000 | - | 933,233 |
| Water supply system | <u>186,806</u> | <u>25,000</u> | <u>-</u> | <u>211,806</u> |
| Subtotal | <u>995,039</u> | <u>150,000</u> | <u>-</u> | <u>1,145,039</u> |
| Net capital assets being depreciated | <u>4,333,258</u> | | | <u>4,183,258</u> |
| Net capital assets | <u>\$ 4,524,208</u> | | | <u>\$ 4,374,208</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|--------------------|--------------|
| General government | \$ 9,212 |
| Public safety | 4,338 |
| Public works | 16,492 |
| Recreation | <u>4,820</u> |

Total \$ 34,862

Business-type activities:

| | |
|----------------|---------------|
| Sanitary Sewer | \$ 125,000 |
| Water | <u>25,000</u> |

Total \$ 150,000

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 5 - CAPITAL ASSETS - Continued

Component Unit:

Capital assets activity for the year ended March 31, 2005, was as follows:

| <u>Component Unit</u> | <u>Balance April 1, 2004</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance March 31, 2005</u> |
|---|--------------------------------------|------------------|------------------|---------------------------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 36,265 | \$ - | \$ - | \$ 36,265 |
| Capital assets, being depreciated: | | | | |
| Land improvements | - | - | - | - |
| Buildings and improvements | - | 75,000 | 75,000 | - |
| Machinery and equipment | <u>24,593</u> | <u>5,000</u> | <u>5,000</u> | <u>24,593</u> |
| Subtotal | 24,593 | 80,000 | 80,000 | 24,593 |
| Accumulated depreciation | | | | |
| Land improvements | - | - | - | - |
| Buildings and improvements | - | - | - | - |
| Machinery and equipment | <u>7,210</u> | <u>2,460</u> | <u>-</u> | <u>9,670</u> |
| Subtotal | <u>7,210</u> | <u>2,460</u> | <u>-</u> | <u>9,670</u> |
| Net capital assets being depreciated | <u>17,383</u> | <u>77,540</u> | <u>80,000</u> | <u>14,923</u> |
| Net capital assets | <u>\$ 53,648</u> | <u>\$ 77,540</u> | <u>\$ 80,000</u> | <u>\$ 51,188</u> |

Depreciation expense was charged to functions/programs of the Component Unit as follows:

Governmental activities:

Economic
development \$ 2,460

VILLAGE OF MENDON

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended March 31, 2005:

| | Balance April 1, 2004 | Additions | Reductions | Balance March 31, 2005 | Current Portion |
|---------------------------------|-----------------------------|-------------|------------------|------------------------------|--------------------|
| Business-Type Activities | | | | | |
| Special assessment bonds | \$ 1,680,000 | \$ - | \$ 75,000 | \$ 1,605,000 | \$ 75,000 |
| General obligation bonds | 545,000 | - | 15,000 | 530,000 | 15,000 |
| Revenue bonds | 67,000 | - | 6,000 | 61,000 | 6,000 |
| Totals | <u>\$ 2,292,000</u> | <u>\$ -</u> | <u>\$ 96,000</u> | <u>\$ 2,196,000</u> | <u>\$ 96,000</u> |

Long-term debt payables at March 31, 2005, consisted of the following individual issues:

Business-Type Activities

| | |
|---|---------------------|
| 1996 Sewage Disposal System Special Assessment Bonds payable in annual installments of \$75,000 to \$50,000 through October 1, 2025; interest at 4.875%, payable semiannually | \$ 1,605,000 |
| 1996 Sewage Disposal System General Obligation Bonds payable in annual installments of \$10,000 to \$40,000 through October 1, 2025; interest at 4.875%, payable semiannually | 530,000 |
| 1974 Water Supply System Revenue Bonds payable in annual installments of \$1,000 to \$9,000 through January 1, 2013; interest at 5.0%, payable semiannually | <u>61,000</u> |
| Total | <u>\$ 2,196,000</u> |

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 6 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2005 including both principal and interest, are as follows:

| | <u>Business-Type Activities</u> | | |
|-----------|---------------------------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2006 | \$ 96,000 | \$ 107,055 | \$ 203,055 |
| 2007 | 96,000 | 102,350 | 198,350 |
| 2008 | 96,000 | 97,645 | 193,645 |
| 2009 | 96,000 | 92,940 | 188,940 |
| 2010 | 96,000 | 88,235 | 184,235 |
| 2011-2015 | 481,000 | 359,650 | 840,650 |
| 2016-2020 | 450,000 | 241,645 | 691,645 |
| 2021-2025 | <u>785,000</u> | <u>93,905</u> | <u>878,905</u> |
| Total | <u>\$ 2,196,000</u> | <u>\$ 1,183,425</u> | <u>\$ 3,379,425</u> |

Component Unit:

Following is a summary of debt transactions for the year ended March 31, 2005:

| Balance April 1, 2004 | Additions | Reductions | Balance March 31, 2005 |
|-----------------------------|-----------|------------|------------------------------|
|-----------------------------|-----------|------------|------------------------------|

Short-term
note payable \$ - \$ 80,000 \$ 1,444 \$ 78,556

Short-term debt payable at March 31, 2005, consisted of the following individual issues:

Note payable to bank at interest rate of
5.5%, balance paid off on May 25, 2005 \$ 78,556

VILLAGE OF MENDON

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Village were adopted on a fund level basis.

During the year ended March 31, 2005, the Village incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF MENDON

REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2005

| | Original Budget | Amended Budget | Actual | Variance With Amended Budget |
|--|--------------------|-------------------|------------|---------------------------------------|
| REVENUES | | | | |
| Taxes | \$ 159,750 | \$ 150,860 | \$ 158,702 | \$ 7,842 |
| Licenses and permits | 4,200 | 4,200 | 5,828 | 1,628 |
| State grants | 86,000 | 81,400 | 81,554 | 154 |
| Federal grants | 18,000 | 12,000 | 11,093 | (907) |
| Charges for services | 5,000 | 5,000 | 5,096 | 96 |
| Fines and forfeitures | 1,500 | 1,500 | 2,419 | 919 |
| Rent | 42,950 | 55,450 | 67,533 | 12,083 |
| Interest | 1,500 | 1,500 | 3,476 | 1,976 |
| Other | 46,150 | 33,650 | 22,987 | (10,663) |
| Total revenues | 365,050 | 345,560 | 358,688 | 13,128 |
| EXPENDITURES | | | | |
| Legislative | 18,800 | 18,800 | 13,899 | 4,901 |
| General government | 116,926 | 116,926 | 105,411 | 11,515 |
| Public safety | 116,137 | 116,137 | 106,609 | 9,528 |
| Public works | 80,450 | 80,450 | 79,962 | 488 |
| Recreation | 4,700 | 4,700 | 4,672 | 28 |
| Total expenditures | 337,013 | 337,013 | 310,553 | 26,460 |
| EXCESS OF REVENUE OVER EXPENDITURES | 28,037 | 8,547 | 48,135 | 39,588 |
| OTHER FINANCING (USES) | | | | |
| Transfers to other funds | (5,000) | (34,845) | (34,845) | - |
| EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES | 23,037 | (26,298) | 13,290 | 39,588 |
| FUND BALANCE - Beginning of year | 289,794 | 289,794 | 289,794 | - |
| FUND BALANCE - End of year | \$ 312,831 | \$ 263,496 | \$ 303,084 | \$ 39,588 |

VILLAGE OF MENDON

REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2005

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance with Amended Budget</u> |
|---|----------------------------|---------------------------|-------------------|---|
| REVENUE | | | | |
| State grant | \$ 52,000 | \$ 60,000 | \$ 58,233 | \$ (1,767) |
| Interest | 1,000 | 1,000 | 2,406 | 1,406 |
| Other | - | - | 2,408 | 2,408 |
| Total revenues | 53,000 | 61,000 | 63,047 | 2,047 |
| EXPENDITURES | | | | |
| Public works | <u>52,425</u> | <u>92,425</u> | <u>87,908</u> | <u>4,517</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | 575 | (31,425) | (24,861) | 6,564 |
| OTHER FINANCING (USES) | | | | |
| Transfer to other funds | <u>(10,000)</u> | <u>(10,000)</u> | <u>(10,000)</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES | (9,425) | (41,425) | (34,861) | 6,564 |
| FUND BALANCE - BEGINNING OF YEAR | <u>257,281</u> | <u>257,281</u> | <u>257,281</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 247,856</u> | <u>\$ 215,856</u> | <u>\$ 222,420</u> | <u>\$ 6,564</u> |

VILLAGE OF MENDON

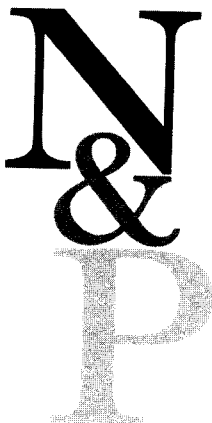
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2005

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance with Amended Budget</u> |
|--|----------------------------|---------------------------|------------------|---|
| REVENUE | | | | |
| State grant | \$ 17,500 | \$ 21,000 | \$ 21,071 | \$ 71 |
| Interest | 500 | 500 | 547 | 47 |
| Other | - | - | 1,032 | 1,032 |
| Total revenues | 18,000 | 21,500 | 22,650 | 1,150 |
| EXPENDITURES | | | | |
| Public works | <u>32,150</u> | <u>61,795</u> | <u>59,481</u> | <u>2,314</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | (14,150) | (40,295) | (36,831) | 3,464 |
| OTHER FINANCING SOURCES | | | | |
| Transfers from other funds | <u>12,500</u> | <u>29,845</u> | <u>29,845</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES | (1,650) | (10,450) | (6,986) | 3,464 |
| FUND BALANCE - BEGINNING OF YEAR | <u>60,774</u> | <u>60,774</u> | <u>60,774</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 59,124</u> | <u>\$ 50,324</u> | <u>\$ 53,788</u> | <u>\$ 3,464</u> |

VILLAGE OF MENDON

REQUIRED SUPPLEMENTAL INFORMATION
VEHICLE SINKING FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2005

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance with Amended Budget</u> |
|--|----------------------------|---------------------------|------------------|---|
| REVENUE | | | | |
| Interest | \$ 50 | \$ 50 | \$ 41 | \$ (9) |
| EXPENDITURES | | | | |
| Capital outlay | <u>-</u> | <u>10,000</u> | <u>10,000</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | 50 | (9,950) | (9,959) | (9) |
| OTHER FINANCING SOURCES | | | | |
| Transfer from other fund | <u>2,500</u> | <u>15,000</u> | <u>15,000</u> | <u>-</u> |
| EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES | 2,550 | 5,050 | 5,041 | (9) |
| FUND BALANCE - BEGINNING OF YEAR | <u>5,069</u> | <u>5,069</u> | <u>5,069</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 7,619</u> | <u>\$ 10,119</u> | <u>\$ 10,110</u> | <u>\$ (9)</u> |



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Village Council
Village of Mendon

We have audited the financial statements of Village of Mendon as of and for the year ended March 31, 2005, and have issued our report thereon dated July 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

Compliance - As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Other Location:

123 N. Main Street

Three Rivers, MI 49093

269.273.8641

Fax 269.278.8252

E-mail

npnr@npaccounting.com

Internal Control Over Financial Reporting - In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Village Council, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

July 15, 2005

Norman & Paulsen, P.C.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)